

**Report on Noncompliance
With Cost Accounting Standards 403 and 418
Found During Contract Performance**

February 2003

Reference Number: 2003-1C-050

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



INSPECTOR GENERAL
for TAX
ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

February 25, 2003

MEMORANDUM FOR DAVID A. GRANT
DIRECTOR OF PROCUREMENT
INTERNAL REVENUE SERVICE

A handwritten signature in cursive script that reads "Daniel R. Devlin".

FROM: Daniel R. Devlin
Assistant Inspector General for Audit (Headquarters Operations
and Exempt Organizations Programs)

SUBJECT: Report on Noncompliance With Cost Accounting Standards 403
and 418 Found During Contract Performance
(Audit #200310002.018)

The Defense Contract Audit Agency (DCAA) continuously examines the contractor's cost accounting practices during performance of contracts. This examination includes evaluating whether the contractor has complied with the Cost Accounting Standards (CAS) Board's rules, regulations, and standards, and any applicable government requirements. By performing government contracts covered by government regulations, the contractor's Civil Division asserts that its disclosed cost accounting practices comply with CAS.

The DCAA noted that for Fiscal Years (FY) 2000 and 2001, the allocation of Civil Home Office Civil Consultants' (Horizontal) indirect expenses to the Operations Function Specific overhead pools is in noncompliance with CAS 403, and the subsequent reallocation of those same expenses to final cost objectives is in noncompliance with CAS 418. The DCAA is not able to determine the cost impact of the noncompliance issue for all the years affected because of the lack of visibility. The Horizontal Costs are commingled with other Civil Division costs.

The DCAA recommends that Horizontals' indirect expenses be allocated consistently with the way direct labor and fringe benefits are charged. This noncompliance condition should be corrected retroactively for FYs 2000 and 2001.

This DCAA report was issued in April 2002; however, the Treasury Inspector General for Tax Administration (TIGTA) did not receive the report until February 2003. The Internal Revenue Service (IRS) previously received copies of the report directly from the DCAA. We are transmitting the report to you to enable the IRS to track any financial accomplishments derived from negotiations with the contractor based on the results of this DCAA report.

The information in this report should not be used for purposes other than that intended without prior consultation with the TIGTA regarding its applicability.

If you have any questions, please contact me at (202) 622-8500 or John R. Wright, Director at (202) 927-7077.

Attachment

NOTICE:

The Office of Inspector General for Tax Administration has no objection to the release of this report, at the discretion of the contracting officer, to duly authorized representatives of the contractor.

The contractor information contained in this report is proprietary information. The restrictions of 18 USC 1905 must be followed in releasing any information to the public.

This report may not be released without the approval of this office, except to an agency requesting the report for use in negotiating or administering a contract with the contractor.

The TIGTA seal was removed due to its size.